

## Message Text

UNCLASSIFIED

PAGE 01 MONTEV 05127 031128Z

ACTION EB-08

INFO OCT-01 ARA-14 IO-14 ISO-00 SP-02 USIA-15 AID-05  
NSC-05 TRSE-00 SS-15 STR-05 OMB-01 CEA-01 CIAE-00  
COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06  
LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 /117 W  
-----127419 040945Z /12

R 021642Z NOV 77

FM AMEMBASSY MONTEVIDEO

TO SECSTATE WASHDC 5148

USDELMTN GENEVA

UNCLAS MONTEVIDEO 5127

E.O. 11652: N/A

TAGS: EGEN, ETRD, EMTN, UY

SUBJ: MINISTER OF ECONOMY PROPOSES MAJOR REFORM MEASURES

1. SUMMARY: MINISTER OF ECONOMY AND FINANCE ARISMENDI ANNOUNCED PROPOSED MAJOR REDUCTIONS OF PROTECTIONIST BARRIERS OVER THE COMING THREE YEARS, INDICATING AGAIN HIS CONFIDENCE THAT THE IMPLICIT COST OF CONTINUING PROTECTION OF IMPORT-SUBSTITUTION INDUSTRIES IS A PROBLEM WHICH RULING ELEMENTS OF THIS GOVERNMENT ARE COMING TO RECOGNIZE. THIS PROPOSAL AND ANOTHER TO REDUCE THE TAX BURDEN ON AGRICULTURE WERE ANNOUNCED TOGETHER WITH DATA ON THE STATE OF THE CONOMY IN PREPARATION FOR THE NATIONAL PLANNING CONFERENCE (CONCLAVE) SCHEDULED FOR THE END OF NOVEMBER. END SUMMARY.

2. IN TWO RECENT SPEECHES REPORTED BY THE PRESS MINISTER OF ECONOMY AND FINANCE VALENTIN ARISMENDI ANNOUNCED VARIOUS PROPOSALS FOR FUTURE ECONOMIC POLICIES WHICH ARE OF MAJOR IMPORTANCE. BASIC TO THE LIST OF PROPOSALS IS SETTING A SPECIFIC TIMETABLE FOR REMOVAL OF THE GREATER PART OF THE BARRIERS TO IMPORTATION WHICH HAVE PROTECTED IMPORT-SUBSTITUTION INDUSTRIES IN THIS COUNTRY  
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 MONTEV 05127 031128Z

SINCE THE 1950S. SPECIFICALLY, THE MINISTER'S POINTS INCLUDED THE FOLLOWING:

--ARISMENDI WILL PRESENT TO THE MILITARY-CIVILIAN PLANNING CONFERENCE, OR CONCLAVE, TO BEGIN NOVEMBER 27, A SPECIFIC TIMETABLE FOR REDUCTION OF THE WIDE MARGINS OF INDUSTRIAL PROTECTION IN EFFECT IN URUGUAY. THE

SUBJECT HAS BEEN DEBATED ACTIVELY DURING MUCH OF THIS YEAR. ARISMENDI'S ANNOUNCEMENT OF THIS PROPOSAL AT THIS TIME APPEARS TO INDICATE CONSIDERABLE CONFIDENCE THAT THE BASIC PROPOSAL WILL BE APPROVED IN THE CONCLAVE. THE MINISTER HAS ALSO ANNOUNCED HIS SUPPORT FOR A SURCHARGE TARGET LEVEL OF THIRTY PERCENT AFTER GRADUAL REDUCTION OVER THREE YEARS IN THE PROTECTION OF NATIONAL INDUSTRIES FACING INTERNATIONAL COMPETITION. HE IS DOING SO IN THE CONTEXT OF AN UPWARD TREND IN INFLATION IN 1977 WHICH, HE PROPOSES, CAN BE CUT BY ALLOWING GREATER FREE PLAY OF COMPETITION TO MODERATE PRICES TO THE CONSUMER.

--HE ALSO CITED THE GOVERNMENT'S PERFORMANCE IN CUTTING THE FISCAL DEFICIT TO A LEVEL OF APPROXIMATELY ONE PERCENT OF GDP. THIS SHOULD ALLOW FOR SOME EASING OF THE FISCAL BURDEN NEXT YEAR. THE MINISTER PROPOSES TO PROVIDE GREATER INCENTIVE TO THE BUFFETED AGRICUL-

TURAL SECTOR AS A FIRST STEP. HE ANNOUNCED THAT THE IMPROVE, OR LAND PRODUCTIVITY TAX, WILL BE MODIFIED TO APPLY TO A THEORETICAL BASE OF NET, INSTEAD OF GROSS, POTENTIAL PRODUCTIVITY, LIGHTENING THE TAX LOAD ON AGRICULTURE GENERALLY. ON THE OTHER HAND, TO EQUALIZE THE CONDITIONS OF BUSINESS FOR STATE VS. NON-STATE ENTERPRISES, THE STATE ENTITIES WILL BE TAXED ON THEIR EARNINGS IN THE FUTURE WHICH WILL PROVIDE FOR SOME FLOW

UNCLASSIFIED

PAGE 03 MONTEV 05127 031128Z

FROM THE PROFITABLE TO THE DEFICIT ENTERPRISES WHICH IS NOT NOW TAKING PLACE.

--ARISMENB NOTED THAT THE COUNCIL OF STATE IS STUDYING A NOVEL DEVICE TO REDUCE GOVERNMENT OVERSTAFFING BY PERMITTING AN AGENCY WHICH DECIDES NOT TO REPLACE A DEPARTING EMPLOYEE TO USE 50 PERCENT OF HIS SALARY TO AUGMENT THE SALARIES OF REMAINING EMPLOYEES.

--THE MINISTER COMMENTED ALSO THAT INTERNATIONAL ECONOMIC GROWTH WAS UNCERTAIN IN THE CURRENT YEAR, WITH UNEMPLOYMENT RATES IN THE ADVANCED COUNTRIES RISING AGAIN. IN URUGUAY'S CASE, THE CHOICE WAS MADE TO CARRY OUT A STABILIZATION PROGRAM WHICH, WHILE FORCING A DECLINE IN REAL INCOME FOR MOST, NEVERTHELESS PRESERVED EXISTING JOBS WHILE INVESTMENT OPENED UP NEW SOURCES OF EMPLOYMENT. THAT INVESTMENT HAS BECOME MORE RATIONAL AS THE INTERNATIONAL CREDIT SITUATION OF THE COUNTRY HAS IMPROVED, WORLDWIDE INFLATION RATES AT 8 PERCENT ANDS), COASTS WITHIN THE SAME RANGE, PERMITTING THE COUNTRY RATIONALLY TO BORROW TO FINANCE NEW PUBLIC AND PRIVATE INVESTMENT. HE ANNOUNCED THE 1976 DEBT SERVICE CHARGE

ON EXPORT INCOME TO HAVE BEEN 42 PERCENT, THE MOST FAVORABLE  
LEVEL IN 10 YEARS.

--IN THE FIGHT TO REVERSE THE PRESENT UPWARD TREND  
IN INFLATION, ARISMENDI CITED THE CUTTING BACK ON  
OFFICIAL EXPORT FINANCING AS A PRINCIPAL MEANS OF  
REDUCING THE MONEY SUPPLY AND THUS PRESSURES AGAINST  
AVAILABLE CONSUMPTION GOODS.

3. THESE PROPOSALS, TOGETHER WITH OTHER RECENT GOU  
ECONOMIC MOVES WILL BE THE SUBJECT OF ANALYTIC REPORTING  
IN THE NEAR FUTURE.  
PEZZULLO

UNCLASSIFIED

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01-Jan-1994 12:00:00 am  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** TRADE PROTECTIONISM, ECONOMIC PROGRAMS, IMPORT CONTROLS, SPEECHES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Sent Date:** 02-Nov-1977 12:00:00 am  
**Decaption Date:** 01-Jan-1960 12:00:00 am  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
**Disposition Date:** 01-Jan-1960 12:00:00 am  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1977MONTEV05127  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D770406-0938  
**Format:** TEL  
**From:** MONTEVIDEO  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1977/newtext/t197711105/aaaadmay.tel  
**Line Count:** 128  
**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Message ID:** b1c4af0e-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION EB  
**Original Classification:** UNCLASSIFIED  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** n/a  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 03-Feb-2005 12:00:00 am  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 402707  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** MINISTER OF ECONOMY PROPOSES MAJOR REFORM MEASURES  
**TAGS:** EGEN, ETRD, UY, MTN, (ARISMENDI, VALENTIN)  
**To:** STATE MTN GENEVA  
**Type:** TE  
**vdkgvwkey:** odbc://SAS/SAS.dbo.SAS\_Docs/b1c4af0e-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009